

MINUTES

JOINT TRANSPORTATION OVERSIGHT COMMITTEE

Tuesday, October 23, 2007

10:00 a.m.

Room 1228, Legislative Building

The Joint Transportation Oversight Committee met on Tuesday October 23, 2007 at 10:00 a.m., in Room 1228 of the Legislative Building. Senators Jenkins, Phil Berger, Hunt, Kerr, Rand, Snow and Stevens; Representatives Cole, Allred, Coates, Crawford, Ty Harrell, McComas and Saunders attended.

Representative Nelson Cole stated that Co-Chairman Jenkins and I will be working with staff to prioritize those issues that were in the study bill that was not passed, but we still are going to look at those issues. Any other issues that members of the committee feel warrant our consideration, we will be more than happy to take those into consideration. It is our intent to meet at least once per month, and hopefully we'll try to back it up with the Governmental Operations Committee meeting so that it will minimize your time away from home.

Representative Cole stated at this time I'll ask Senator Jenkins if he has any comments he wants to make.

Senator Jenkins stated that, as a matter of personal privilege, we have a good friend staff member that has come back and I think this is his first Oversight Committee meeting in quite some time. If you would stand up Jim Trogden, as most all of you know, has served in Iraq and has just returned in the last month. Jim is going to have another title in about 30 days and that is General. We are all very proud of Jim and Jim, thank you for being back.

Representative Cole stated that Representative Carney advised her legislative assistant that she is not here today due to a virus that she has. She wanted the committee to know that.

Representative Cole recognized Representative Saunders. Representative Saunders stated that members of the House and Senate are going to get an invitation in the mail shortly to a significant and historical event in Charlotte. We are going to open the first leg of the southern corridor of a light rail system on November 19th. You will be getting that in the mail shortly.

Representative Cole recognized and introduced Mark Foster, Chief Financial Officer, DOT. Please see attached presentation "DOT Transformation Status Report". Mr. Foster stated that he too wanted to welcome Jim Trogden back. As many of you know, Jim was a Division Engineer for us in Division Four before he accepted his new role with the Legislature as well as his service to the country. Again Jim, welcome back. The purpose

of our discussion today, is to provide a progress report on activities underway to revamp the DOT, to better serve the transportation needs of the state. It includes a high level discussion of the work performed over the last six months by McKinsey & Co.; that performed a diagnostic as well as provided transformation direction to the Department. That work was recently completed. They are working on their final report. That report will be available in early November. Our intention is that we will get that report to all members of this committee in plenty of time for them to review the report and then we are bringing McKinsey to the November meeting to answer your questions. This presentation is about NCDOT transformation. It is going to provide a future vision of our 21st Century DOT. It will also provide an insight on the accomplishments we've made over the last several years and will be committing to make to turn around the performance of DOT to meet the needs of this state. Please see attached presentation "NCDOT Transformation Update for Joint Legislative Transportation Oversight Committee".

Roberto Canales, Deputy Secretary, DOT was the next presenter. Please see attached presentation "DOT Transformation Status Report".

Mark Foster stated that just to summarize, Roberto went through a lot of detail. Let me just summarize what he just said. Over the next six to twelve months, we are going to implement and assess three very important Performance Pilots; the Bridge Program, TIP Projects and Traffic Management. If you think of a Bridge Program, right now it takes us five years, on average, to deliver a bridge. Their goal is to deliver those in two or three years. You can imagine with 150 to 200 million dollar Bridge Program, even at 10% a year, that is 40-50 million dollars a year of return back just by getting more productive. That same type of value engineering is going to be used on the TIP pilots to significantly shorten the time frame, which now on an average project, might take 10-12 years to deliver. If you imagine in a \$1,000,000,000 to \$1,500,000,000 TIP program per year, how much cutting two to three years off that delivery cycle will bring back to the state. Traffic management, as you know, we've got to leverage our traffic across our existing infra-structure a lot better; not only giving our drivers pre-warning of incidents, but also using other techniques like incident management to get those wrecks off the road in record time. We know that for every minute that there is a wreck on the road, it takes four minutes to clear. We are going to do a bottom up assessment of every department and service within the organization. Bottom up is not just your standard accounting look. We are going to be looking at how every product, service and person, within the organization; what they are doing, what they cost and how they are aligning those products and services with the goals we are going to set for the 21st Century DOT. I can't tell you whether we will cut money, spend the same, or invest more, but it will look very different as we invest in areas that need to be invested in and disinvest in areas that don't. We are going to put in Performance Metrics up and down the organization. Not only from the stand point of understanding from our top level leadership what it is we are trying to do, but over the next 18 months, because it is going to take a cycle to get through. Those Performance Metrics will be down in every performance appraisal from the muddy boots on to the top. Those Performance Metrics are going to make their way across DOT to the other agencies that do business with us. The other day one of our key

leaders was talking with external agency stakeholders and made the statement “you guys better get your act together, because by next year my appraisal will be based on on-time, on-budget”. That is a powerful statement. Not only is he worried about his own performance, but he is worried about the performance of everyone else who is a stakeholder in DOT. We are going to create a new Talent Management strategy. As you know, and we are no different than most of the state, our HR processes are just that, processes. They are not geared toward developing talent and retaining the talent of the state. If we are actually serious about being the employer of choice, we’ve got to make a radical change in how we recruit our people, treat our people and more importantly, educate our leaders to lead a \$4 billion business. It comes down to simply prioritization, accountability and collaboration. If we focus on those three things, we are going to be terrific in terms of delivering process in the future. Roberto mentioned TMT accomplishments. As you know, we have been working on transformation efforts all along, even outside the TMT. I want to mention just a few of those today. Talking about collaboration and particularly with external agencies; over the last couple of months, we have worked with the Department of Natural Resources, Corps of Engineers and Water Quality to take out over \$40 million in our EEP budget. By being more innovative, abusing existing mitigation credits that we already had in place, but because of current policies, we were unable to use for future projects. Those are real dollars that will be saved over the next two years. As many of you know, we have been selected as one of six national corridors of the future in the country. We worked in collaboration with our neighboring states of Virginia, South Carolina, Georgia and Florida; also in conjunction with PBS&J to put together two robust applications, and we were selected. The first money from that application will be \$21 million of seed money, that will come back to be used on modernization of I 95. The real opportunities in the future will be turning in a more robust plan in the spring and that is where we’ll get an opportunity for significant federal assistance, as we look at this corridor from Washington to Miami and how we resolve a significant transportation congestion problem. We also recently got a federal grant for about \$1 million to work on traffic management. Putting sensors and other technology on our interstates so we can provide the traveling public with better information on congestion throughout the state and obviously also looking at ways to move that traffic around those congested points. We are going to be housed, very shortly, with Highway Patrol, National Guard, emergency operations center folks, as well as NCTA, in the first central operation center in the state. If you think about it, when we are managing traffic, we don’t manage it in a vacuum. All of those agencies need to work together and have the same common data base and information so they can react in coordination, when we have an emergency or when we have a traffic incident. Finally, last Tuesday and Wednesday, we closed on our first GARVEE Bond Issuance. As you know, GARVEE Bonds are bonds where we pledge our future federal revenues at a very attractive rate to accelerate projects within the state. We closed on our first \$300 million and that will pay for 30 projects on our highest priority, our strategic highway corridor, over the next two to three years. Over the next seven years, we will probably be going out with another three ?; again, using that money on our highest needs. The theme of this exercise really, is making a good organization work better by unleashing the potential of our work force. If someone asked me simply where we are today; we are an agency that under our own initiative, took bold action to address the problems we face in the 21st

century. No one told us to do it; we are doing it on our own. We used the world renowned partner to instill proven business practices to bring proven business practices to a public agency, because we think they will work. As you look at most of the problems within NCDOT, they are basic business problems. We are going to be aggressive. In times past, when someone asked us to do something, it probably took six months before the idea and actual solution was brought back for consideration. As Roberto mentioned, we have been getting our TMT members orders in a matter of weeks to come back with options. We will then be testing those options, putting them on the street and when they work, we will be institutionalizing them over the next 12-18 months. We have already saved over \$40 million; the significant savings to come, particularly in project delivery. If you look at what we invested in McKinsey, which is about \$3.6 million, that is a lot of money. If you look at a \$4 billion agency that, to date, had invested very little money in innovation and look what we have achieved in the last few months; we have paid for that investment tenfold before even getting started. That is high value in my book. McKinsey brought a lot of good proven business practices to the table, but an organization like NCDOT has to drive it on their own. They brought us this far; we are going to take it to the end zone. Finally, through this process, and most importantly, we discovered an untapped resource, which is our employees. I would say that right now the star of this exercise are the 20-24 men and women who are working on that TMT from all over the state; the division engineers headquarters and alike. What they have done, is they have gotten out of their traditional roles and given a very serious set of challenges and they are performing very well. Based on that, we realized how much talent they bring to the organization. Next month, if you'll let us, we are going to bring some of those folks in front of you to show what they are doing with the Bridge Program, TIP and others. Basically, what it all comes down to is mission and goals. It has to be simple, it has to be clear. We need to work together for our common purpose. We need to respect each others contributions and we need to insure that we each fulfill our role in connecting the people and places in North Carolina.

Representative Cole asked if there any questions.

Representative Cole recognized Representative Jones. Representative Jones stated that I wondered if there was any consideration for the demands of the system; this type of projection as to change in priorities. Page 8 shows the growing demand on the system and the North Carolina population growing by 50% between 2000 and 2030 and "7th" most popular state by 2030. It is my understanding that North Carolina will eventually replace Florida as the largest senior population. Will there be some type of evaluation as to the demographic changes that may impact on the system. For instance, here you have rail, I'll assume the rail system and other alternative would probably be more important 20-30 years from now. My question is, are you going to have something in place to evaluate and come up with what you need to meet these objections in 15-30 years versus the population you have now.

Mr. Foster stated that there were two ways to answer the question. First and foremost, rather than having an ad-hoc strategic planning process, it would be full time. That would be working full time at not only growth within the state, but the commerce needs

of the state. As you think about the goals of NCDOT, it is all about connectivity between one place to another. That connectivity should include all the options, which include mass transit, rail, air as well as highways when we look at solving what it is going to take to move traffic and people across the state.

Representative Cole recognized Senator Hunt. Senator Hunt thanked Mark Foster for the report, I think it was absolutely critical that you undertook this endeavor and I'm really glad you did it. I think that for the basis of the report, which we have not seen all of it yet, it sounds like it is what we needed and it is very encouraging that you did it. Let me ask you one particular question regarding project management. I think this is probably part of the transformation goal that you are establishing; make sure one project manager is over any particular project as opposed to having their input in design so when there is a mistake out there; there is one person we can go to and say "what is the deal, why did you not catch this".

Mr. Foster stated that depending on the type of project, you may have different methodologies on how you insure that you have true project management and accountability, depending on the complexity of the project. Simply, there will be an owner. That owner will be identified very visibly, not only within DOT, but within the public. There will be a very significant performance metrics assigned to that project, so that everybody from the design throughout the process; understands that that job is not done until traffic is on the road. They will all have a vested interest in getting the traffic on the road, not just their piece of the process.

Representative Cole recognized Representative McComas. Representative McComas stated he had one question and a quick comment. Listening to your presentation, we will be implementing certain changes within the Department, are we anticipating that there is going to be a cost associated with all of this?

Mr. Foster stated that there is not a specific budget for this. What we are doing is we are paying for this exercise by keeping our head count down. I think we have an arbitrary level of 9%-10% that were not ?. Obviously, as you know from your business perspective, you can't just look at cost without value. As we do the bottom up assessment of all the service areas of the business, one of the things we are going to think about is how do we; for the same dollars, create significantly more value in meeting the goals and missions of the Department. In some areas we are going to invest more. We know that we will have to invest more in probably having a robust human resource area, or a strategic planning area. Some sort of way that we can clearly boost traffic management and communication throughout the state, so people understand what to expect and when they get on the network, how it is going to perform. When I think of the value, even if it were ten times of what we just invested in McKinsey, given what I think we can create out of project delivery and streamlining, again, the possibilities are immense. That doesn't mean, as we saw on an earlier slide, when we looked at the three things that it is going to take to solve transportation problems in the state; getting DOT efficient is only one of those. Setting statewide priorities is number two, and obviously looking at the outcomes of the state. How will we find DOT and priorities fit, but then,

what is the price tag of getting to the place we need to go? It is all integrated and I'm not sure I can silo the price tag. I will assure you that everything we do will have value associated with it.

Representative Cole recognized Represented Allred. Representative Allred asked what can you do to straighten out the misconception that The General Assembly is robbing money from the Highway Trust Fund. Why can't you get the message out that the Highway Trust Fund was not established to fill pot holes. It was not established to repave and resurface roads. The Highway Trust Fund was established, and the projects are in the law, specifically to build certain projects. The Highway Fund is what we use to maintain the roads and fill the pot holes. We need to change the name of the Highway Fund to the Highway Maintenance Fund so that people will understand that we have two different funds. The Highway Trust Fund stole the money from the General Fund to pay for those special projects. I am frustrated by the continuous lie being told by the newspaper editors across the state. I've tried to straighten mine out in Burlington. I wrote in and explained the situation to him. I told him we have two funds and at the end, the editor, who is a good friend of mine, he said "that explains things I think". They just don't get it. What are you going to do to make them get it?

Representative Cole stated that there was a lot of confusion out there and they don't take the time to understand what the issue is. There has even been talk of maybe combining the funds and have just one highway financing fund. These are ongoing issues that we are talking about.

Representative Cole recognized Senator Jenkins. Senator Jenkins stated to Mr. Foster that it was safe to say that up until 4:00 yesterday afternoon, we felt that somebody from McKinsey would be in here to support this report. I was a little surprised to find out they were in India and not Raleigh. You say that you can have them here in November and have the report to us by the middle of November so we can have a meeting the later part of November. Mr. Foster I think it is goes without saying, that we very much want the McKinsey firm here. The things that I think that you need to be prepared to do, after we've had an opportunity to see this report and be ready to report to us in November, is why you chose the firm over the other firms. You mentioned world renowned, you mentioned \$3.6 million and billions of dollars worth of money; I would hope that you are going to be prepared, in November with the help of McKinsey, to give us this final report. I would hope that, based on the other parts of this presentation that you should be able to show us a new organization chart by then and how you have torn down these silos and you have a new operating mode. Is that safe to say?

Mr. Foster stated to the first point, as we talked with McKinsey yesterday and they apologized. When the meeting date was moved a week, they thought they were clear that they were not going to be here, we thought they were. We certainly apologize for both. Talking with them, as we were going globally last night, they are very anxious to come and speak to the group here, and to showcase why they are the world renowned consulting group. When you think about what they bring to the table, they brought credibility, they brought resources and they brought speed. As you know, we've got a

business model that has been in place for 50 years and 14,000 people. It takes someone with credibility to come in and showcase, very quickly, the need for change. They have done a very good job of that. When we looked at the other proposals we were considering, most of those proposals were the old model; come in, diagnose, write a report, sprinkle a few recommendations. What was very different about the McKinsey approach, which caught our eye, was the fact that they were on the ground, going to train our people; basically, give them a mini MBA on how to change a business and how to make that change lasting. That has been extremely important. That training went to the TMT members. It went to over 200 executives within this organization. That is the type of seed, when you think about seeds of change, you can pick cheap seeds or you can pick good seeds; we feel we chose good seeds and will have an opportunity to showcase that next month. When it comes to organization change, we'll be happy to roll that out. It may not be the big bang approach. It may be, as we look at the Bridge Program, you will see a completely different way of managing bridge programs, and with that will come an organization structure that combines a number of units together. That will become institutionalized. When we look at the TIP pilots, we are not just looking at one delivery process, we are looking at multiple. As we have learned from those processes, not waiting until the end, but as we get further into it, it will become very clear as to what direction we need to go, in terms of an organization. Bottom up; that is very important. When we finish that bottom up look in the spring; that will also be an eye opener in terms of what we traditionally look at in our ongoing budgets and what they may look like for the future. We will be reporting that back out. Leadership; moving boxes around a chart is one thing, looking at the competencies of our leadership is another. One of the first things that our talent management initiatives are doing: is actually looking at the core competencies of each of our key functions within the business. What it takes to run that business and we will be matching that with our core talent. You may see some things come out of that as well. I know I haven't answered your question specifically, in terms of big bang time, but we will be in constant conversation. I assure you, nothing will be done without your input from this group and we will work very hard to meet your expectations for future deliveries.

Representative Cole recognized Senator Kerr. Senator Kerr stated that being from eastern North Carolina, we are concerned with water. I think we need to ? DENR our system, and the federal people, the Corps of Engineers to streamline construction down east due to wetlands. Any time you get east of Raleigh, if you go too far, you hit wetlands. We don't need a 200 acre interchange because it looks good. We need to do something to get this project going. At some point we need to get this thing going, we are in a desperate problem down east, and it is compounded by the things nature gave us. I would hope we can all work together. I think DOT has done the best they can do. Someone needs to go and talk to the Corps. The Corps needs somebody on top to have a meeting and see if they can't get everybody on the same church pew. We need to borrow some money, get some money and try to do this. I've spent 20 years seeing what they can do.

Representative Cole stated that SB 1005 makes DOT the lead agency, which the feds have said is the lead agency in making decisions. They take input from all the other

divisions, meaning DENR also. In the end, it is their decision. With regards to the clover leaf taking up 30, 40, or 50 acres; yes, I'm hoping they will address that in the near future too.

Representative Cole recognized Senator Snow. Senator Snow stated that I applaud the Transformation Project and I think what I have heard today is great. As this proceeds, that you not forget the balance between urban and rural needs. As you talk about priorities; a rural project in my area is almost a ? city. I hope that I don't see this transformation project come up in a couple of months, and say that your project is being delayed for two months, or two years. When you think about things that are already on line, I hope you won't forget those that are getting near the time.

Representative Cole recognized Senator Hunt. Senator Hunt stated that one of the items in the transformation process has been achieving goals. What did the goals used to be?

Mr. Foster stated there are as many goals as thinkers. That now is part of the problem. As an example, when you ask the janitor from Boeing what his job is, he'll tell you my job is to build planes. Our people could not verbalize what the goals of the Department were, which is why we made them as simple as possible so that every citizen could understand that when you ask that transportation worker what his goal is, it is to connect people and goods across the state.

Representative Cole recognized and introduced Lacy Love, Manager, Asset Management, NCDOT. Please see attached presentation "NCDOT Productivity Pilot Programs".

Representative Cole recognized Representative Allred. Representative Allred stated that he has had complaints from employees about their turning in suggestions or program proposals that save the state money; then they get a bonus. I don't know what you call that. Do you know what that is called?

Mr. Love stated it was Employee Incentive Program. That is not associated with this program; they are two separate things.

Representative Allred stated that while we are incentive pay, I think this is a good time to bring it up. They have not been getting a response back. It seems like they should be told, within a year, that their proposal had no benefit. They should get a response. I'd like to see DOT at least give them a response.

Mr. Love stated he would be glad to check into that.

Representative Cole recognized Representative Harrell. Representative Harrell stated, Mr. Love, you mentioned that when it comes to bridge inspections that right now your teams are overwhelmed across the state. How many teams do you have or how are they spread out across the state?

Mr. Love stated that they are tasked to do as many as they can do. What we can't do internally, we'll use consultants to pick up the additional work load that they can't accomplish. They are spread across the state. They are in the west, east and the Piedmont. Those teams that are top side and the divers are spread across the state. There are some in each region of the state, to minimize drive time in the areas where the bridges are located.

Representative Harrell asked for a ball park figure for each region; eastern, central, western portion of the state. How many teams are you looking at that deal with this type of inspection?

Mr. Love stated there were 18 top side teams. Those are the folks that look from the foundation up; they do not go under water. They are scattered all across the state. I'd be glad to give you the locations if you'd like.

Representative Cole recognized Representative Jones. Representative Jones asked how an overpass is classified. In Greensboro we have ? Avenue where there is a bridge, but it is not really a bridge, it is an overpass. The overpass is over Interstate 29. Do you classify an overpass as another road or highway?

Mr. Love stated that if it is a bridge, it would get the same attention as a bridge on the interstate system. It would have an in depth inspection every two years. Whether it would be ours or the City of Greensboro, they are still required to have a bridge inspection done. It could be a walkway bridge. We have some walkways over our roads, and they are inspected as well.

Representative Jones stated that was different from when you get off at an exit and cross over the highway.

Mr. Love stated that if it is a bridge, it is still an overpass; then it is going to be inspected.

Representative Cole recognized Representative Allred. Representative Allred stated that NC Go sent out to all the legislators a list of bridges in his or her county, which they consider to be deficient. I thought it was rather hilarious; the ones that were on the list, because some of them had been built within the last ten years. I know bridges in Alamance County, like on 87, that bridge was built in 1948. It was not on the list. I don't think it is deficient. I think it is a disservice to the public for an organization like that, which is pushing the legislature to increase taxes, so we can bring out more paving, for the paving contractors, and more business for the aggregate people. It is irresponsible for them to be putting out a list of bridges, claiming they are deficient and trying to scare people because a bridge in Minnesota collapsed that wasn't taken care of by the state. A brand new bridge being built in China collapsed. Reporters have said that the Chinese people can lay concrete better than anybody in the world. That brand new bridge collapsed. We need to stop this mania that is going around because a bridge collapsing in Minnesota. That does not apply to North Carolina. I believe that somebody in DOT

responded that that was not their list. I hope you will make that clear to the people in this state, that these bridges are not about to fall down.

Representative Cole stated the comments were noted and on the record.

Representative Cole recognized and introduced Roger Rochelle, NCDOT; State Alternative Delivery Engineer. Please see attached presentation “ NCDOT Design-Build; State of the Program–2007”.

There were no questions. The meeting adjourned at 12:05 p.m.

Senator Clark Jenkins,
Co-Chairman

Representative Nelson Cole,
Co-Chairman

Pattie Johnson
Committee Assistant